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# **The social value of multi-stakeholder co-operatives: the case of the CEFF system in Italy**

Silvia Sacchetti

University of Stirling, Business Schools

[silvia.sacchetti@stir.ac.uk](mailto:silvia.sacchetti@stir.ac.uk)

Ermanno C. Tortia

University of Trento, Department of Economics and Management

[ermanno.tortia@unitn.it](mailto:ermanno.tortia@unitn.it)

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## **INTRODUCTION**

The scope of this paper is to provide an illustration of how social co-operatives can consistently pursue their social mission whilst retaining economic sustainability. We rely on case study analysis of an Italian social co-operative. Since 1991 social co-operatives have been conceived in the Italian legislation as mutual-benefit entrepreneurial organisations with a social character. The social objective was nested into the mutualistic structure, while the multi-stakeholder governance and the accumulation of socialized assets made the social co-operative similar to more traditional non-profit forms.

Our study was conducted at CEFF (Educational Co-operative for the Faenza Families), an organisation that comprises two social co-operatives located in Faenza, (Emilia-Romagna, Italy), offering both employability services and labour integration for the disadvantaged. CEFF is a suitable case to contribute to an understanding of the emergence, sustainability and resilience of the co-operative business model. First, we offer an analysis of the structure and development of governance at CEFF, as an illustration of the emergence of a multi-stakeholder co-operative. Second, by analysing its evolution over time, we aim at shedding new light on the social nature of cooperation within a competitive market economy, on the ways in which co-operatives can generate and distribute social value across an integrated (horizontal) value chain by means of networking.

In the conceptual scheme proposed by Mazzarol et al. (2011), co-operative firms are characterized as productive units with a dual role: the satisfaction of the objectives of

members as owners, and the satisfaction of members as patrons. While the first objective is dominant in investor-owned and profit-maximizing companies, the second objective is dominant in co-operatives as associative organisational forms (Birchall 2010). Complementarily, we recognize another relevant dimension, the satisfaction of emerging needs across the community where the co-operative is embedded. This extended dimension of mutuality appeals to the systemic role of co-operatives, which is characterized by feedback mechanisms with the surrounding environment, for example in terms of production and accumulation of social capital, as well as pursuit of socially relevant objectives.

Some typologies of co-operatives, such as social co-operatives, have shaped their *raison d'être* around socially oriented activities. In most cases, they did so: (i) by limiting the distribution of profits,<sup>1</sup> (ii) by introducing an explicit social goal in the definition of their activities, and (iii) by implementing multi-stakeholder governance. These institutional solutions are functional (i) to gather common resources which can be dedicated to the pursuit of social purposes, and (ii) to the involvement of those publics which bear relevant economic and social interests in the firm's activity.

The making of a more complex governance structure is likely to engender higher ownership costs with respect to the more conventional mono-stakeholder governance (Hansmann 1996; Borzaga and Tortia 2010). However, larger costs need to be compared with increased social benefit. In this respect, socially oriented co-operatives can be considered a third typology of co-operative firm, besides the two more traditional supply and demand side co-operatives, which historically emerged earlier.<sup>2</sup> The initial examples of social co-operatives emerged in Italy in the late 1970s. Their origin is connected with initiatives taken by social activists. These initiatives were directed to supplement public intervention in the delivery of social and community services.<sup>3</sup>

Social co-operatives were conceived by their founders, right from the start, as mutual-benefit entrepreneurial organisations with a social character. The social objective was nested into the mutualistic structure, while the accumulation of socialized assets made social co-operative similar to more traditional non-profit forms. Borzaga and Ianes (2006) describe these early social co-operatives as "social-solidarity co-operatives". These firms overcame the strict mutual benefit objective of more traditional typologies of co-operatives, such as worker, producer, and consumer co-operatives.

Because of their anomalies, socially oriented co-operatives were initially rejected by the Italian jurisprudence on the ground that they did not fulfil the requirements of internal mutuality. The concept of “enlarged” or “external” mutuality was introduced later, to safeguard the social objective of the new typology of co-operatives. The de facto acceptance of co-operatives pursuing social objectives paved the way for a new legislative act in 1991 that regulated “social co-operatives” as a new juridical category (*ibid.*). In 2005 there were about 10,000 active organisations at the national level (ISTAT 2008), distinguished between Type A and Type B social co-operatives.<sup>4</sup>

To account for the extended-mutuality dimension of co-operatives, we develop a theoretical synthesis of multi-stakeholder governance in the non-profit sector, which we then use to interpret the case of CEFF (Emilia-Romagna, Italy), a system of two interconnected co-operatives that offers employability services to local families and labour integration for the disadvantaged. The CEFF case was undertaken in 2006 and can usefully contribute to an understanding of how specific social needs have been progressively integrated into the aims and governance of the organisation yet ensuring the sustainability and resilience of the co-operative business model.

With the aim of appreciating the evolution of a multi-stakeholder model, this case study was designed to include a variety of voices and implemented through a series of in depth interviews. These involved (i) two managers in the areas of research and development and human resources management; (ii) the directors of the two co-operatives; (iii) the president of one of the co-operatives (CEFF Bandini); (iv) two disadvantaged (former. drug-addicted) workers; (v) volunteer social workers. The interviews have evidenced the existence of robust and multi-dimensional linkages between the organisation, its members, and the local publics. Ties generate feedback mechanisms that contribute to community development through the accumulation of local social capital and the building of inclusive socio-economic systems (Borzaga and Tortia, 2007; Sacchetti and Sugden, 2011); finally, also through the reduction of negative social effects and social costs deriving from marginalization. The CEFF case sheds light on concrete ways in which co-operatives can generate and distribute social value building on shared beliefs and objectives, social ties, inclusive governance and consistent management practices.

Following the introduction, in the first section we offer a general framework aimed at justifying the shift from the traditional mono-stakeholder focus to multi-stakeholder governance in the supply of welfare and social services. The second section discusses the

main emerging properties of multi-stakeholder governance: its ability to internalize crucial contractual effects and to reduce contractual and social costs, to support the production of social value, and to develop networking, both inside and outside the organisation. The third section focuses on the CEFF system and explains the interconnections between the evolution of local social needs and CEFF's governance structure. The fourth section concludes.

## **MULTI-STAKEHOLDER CO-OPERATIVES AS A SPECIAL CASE OF MULTI-STAKEHOLDER ORGANISATIONS**

The vast literature on the existence of market failures has extensively dealt with market imperfections and the remedies for them. For example, the literature on agency costs (Alchian and Demsetz 1972) and on the separation between ownership and control (Berle and Means 1932) evidenced long ago the existence of inefficiencies in the standard principal-agent contractual structure. In this literature, the presence of asymmetric information and diverging interests always generates agency costs, and optimal incentive structures were developed to address the insurgence of such costs. Despite the wide observation of failures of such kind, conventional economic theories (neoclassical and the new-institutionalist) understand market imperfections more as exceptions to the smooth functioning of competitive markets than as the rule.

This is evident in sectors populated by non-profit oriented organisations, where contractual imperfections are an intrinsic feature of the activities and may not be overcome by traditional organisational forms, such as the for-profit firm and the public sector organisation (Weisbrod 1977, 1988; Hansmann 1996). As in Kreps (1990), multi-stakeholder corporate culture can emerge within the organisational boundaries to supplement the deficiencies of contractual structures. Such processes of internalization and involvement can slow down the process of governance and increase its costs. However, when contractual failures are serious, the costs of market contracting can grow exponentially as well, and active involvement of different stakeholders may be the only modality by which production can take place in a cost-effective way.

The correction of failures within the standard framework of competing profit-seeking entities appears difficult in many instances because of the dominance of the profit orientation and the intractability and cost inflating connotation of contractual imperfections. However, the literature on corporate social responsibility has highlighted various channels through

which profit seeking firms can achieve a better social standing (Degli Antoni and Sacconi 2011; Sacconi 2011). Here, self-regulation in terms of ethical codes and social accounting is understood as an institutional feature that can support socially responsible behaviours. Still, in profit seeking firms the profit objective and decision making power appear to be strongly concentrated in the hands of investors and, consequently, contractual protection accorded to non-investor groups of patrons appear, as a norm, weak. Asymmetric information and ex-post contractual opportunism can still impose significant costs even after accounting for corporate social responsibility criteria.

A critical perspective on the limits of conventional corrective mechanisms to market failure raises an opportunity for enquiring about the characteristics of multi-stakeholder governance. Theory suggests that multi-stakeholder governance requires the achievement of cooperation among groups of patrons. Results in the field of game theory, experimental economics, and field research show that the co-operative outcome is, in general, the best possible result for all the involved constituencies. However, in order for it to be achieved, rules need to be put in place that allow co-operative and reciprocating behaviours to emerge and be sustained overtime (Fehr and Gächter 2000; Ostrom 2005; Sacchetti and Tortia 2012). In the absence of proper working rules the co-operative outcome is not likely to be accomplished because of the impinging risk of exclusively self-seeking behaviours by some individuals or groups, and because of the absence of mechanisms for punishing defections. Indeed, one of the main functions of organisational routines, beyond imposing sanctions on non-co-operative behaviours, is the stabilization of expectations about the behaviour of others (Nelson and Winter 1982; Hodgson 1993, 2006).

The diffusion of social co-operatives in Italy supports the idea that, at least in some sectors (e.g. in the production of non-traditional and non-standardized goods and services), and for some organisational forms more than for others (e.g. mutual and social benefit organisations more than profit seeking companies), multi-stakeholder organisations are sustainable. Their diffusion appears closely connected with the specific features of their governance structure. In particular, we suggest that the exclusion of the profit motive and investors' control creates space for the inclusion of groups of non-investor stakeholders in the active governance of the organisation.

In contrast, for-profit firms appear to be characterized by a more rigid, exclusive and hierarchical form of governance in which the inclusion of non-investor stakeholders is more severely limited. In this case, contrasting interests between investor and non-investor

stakeholders seem more prone to emerge as a consequence of the focus on financial objectives, and as a result of the exclusion of non-investor stakeholders.

Comparatively, multi-stakeholder co-operatives do not appear to be directed to maximize conventional efficiency, financial objectives or, more generally, exclusive interests as in for-profit firms, but to create an inclusive form of governance that is able to overcome the severe contractual failures that afflict the private provision of social services, (e.g. asymmetric information, uneven distribution of decision making power, divergent objectives of different stakeholders).

In these respects, multi-stakeholder co-operatives appear better suited than profit maximizing ones to serve the interest of the community and of society at large since they are able to internalize a wider variety of motivations and interests and, through appropriate deliberation, achieve a synthesis that aims at accomplishing a shared understanding of what the needs are and how these can be met (Ben-Ner and Gui 1993; Ben-Ner and Van-Hoomissen 1993; Sacchetti and Sugden 2011). Finally, in addition to the social orientation, multifaceted membership suits the individual's intrinsic desire for variety and discovery, increasing the entrepreneurial content of the activity by means of active involvement in communication and deliberation (Bianchi 1998; Kirzner 1989; Sacchetti 2012b).

## **MULTI-STAKEHOLDER CO-OPERATIVES AND THE PRODUCTION OF SOCIAL VALUE**

The co-operative firm, which has historically emerged as a mono-stakeholder business form, appears consistent with multi-stakeholdership, more than investor-owned companies. While in the latter the dominance of the profit motivation and of control by exclusive interests (i.e. investors) can at best be constrained by public or self-regulation,<sup>5</sup> co-operatives represent, right from the start, a business form controlled by a non-exclusive and non-investor stakeholder membership. In co-operatives, in fact, the dominance of investor ownership is overcome even when they are monostakeholder organisations, whilst the extension of active involvement to more than one group of non-investor patrons can represent a natural step forward, when this is required by the effectiveness of entrepreneurial action that is explicitly aimed at the fulfilment of social needs.

In Italy, the historical development of social co-operatives supports the view that while many were created as mono-stakeholder organisations, most social co-operatives grew as multi-stakeholder ventures. The scope was to include different constituencies in the governance structure in order to effectively achieve social objectives (ISTAT 2008; Borzaga and Ianes 2006). The Italian law on social co-operatives (law 381/1991) explicitly recognises the possibility, but not the necessity, that different groups of social actors are included into the formal governance of the organisation (members' assembly, boards of directors, advisory and auditing boards). The law also disposes that social co-operatives cannot be controlled bodies. Multi-stakeholder governance was explicitly introduced: (i) to account for the need of active participation demanded by different groups of patrons; (ii) to institutionally underpin the entrepreneurial nature of these mutual-benefit ventures; (iii) to overcome contractual failures traditionally encountered in the supply of social services; (iv) to give a tangible form to the concern for the community that was then taken up by the 7th ICA principle.

The implications of the policy can be clarified perhaps by reflecting on the main socio-economic features that multi-stakeholder governance is expected to add to traditional forms of governance. In our understanding these are:

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1. the internalization of contractual effects and the improvement of welfare for the involved stakeholders;
2. the implementation of inclusive processes of deliberation, implying a recognition of multiple perspectives and experiences, as well as the development and use of relevant knowledge;
3. the production and distribution of a social surplus;
4. the dynamic implementation of an inclusive growth process by means of networking.

### **Internalization of External Contractual Effects and Inclusive Processes**

The internalization of external contractual effects into the objective function of the organisation passes through the gathering and elaboration of complex information, which can have a relevant and non-codifiable tacit dimension (Polanyi 1958, 1967). By promoting deliberative processes and communication, multi-stakeholder governance is expected to be able to reconcile the different, and in some cases diverging, objectives of individual groups of



patrons. These effects are connected with the overcoming of simple contractual constraints connecting the organisation with non-controlling stakeholders, as well as with the establishment of a learning culture that favours values of enquiry and social inclusion. Inclusive deliberative processes have been specifically advocated because of their potential to activate individual creativity and to generate new knowledge about social needs and organisational processes across stakeholders (Sacchetti and Sugden 2011).

Deliberative and inclusive processes are also expected to activate positive psychological effects. In particular they have been associated with the satisfaction of basic psychological needs such as competence (the mastering of abilities such as learning and creativity), autonomy (the feeling that an act is connected to the individual's will and critical judgement) and relatedness (the feeling of belonging or being connected to a group) (Deci and Ryan 2000). Taken together, these aspects of involvement have been associated with implications for individual welfare, in terms of health (Erdal 2011), satisfaction and firm performance (Lawler, 1986; Arthur, 1994; Appelbaum et al., 2000; Guest, 2011; Wood & Wall, 2007, Sacchetti and Tortia 2012a). Moreover, because they reinforce trust and reciprocity, communication and deliberation have been associated with increased co-operative behaviour (Ostrom 1990). Besides improving the work environment and answering to specific psychological needs, by reducing contrasts, trust relations can also, in more general terms, decrease the costs of transactions.<sup>6</sup>

It follows that inclusive governance and deliberative practices are expected to lead to the private provision of collective goods, such as better quality of life and improved knowledge, as well as to the overcoming of various contractual deficiencies.

Simple contractual relations are often insufficient to achieve the same results, given their incompleteness, and their short term and exchange nature. Costs of contracts can increase even if diverging interests do not break out into open confrontation when the risk of manifestation of contrasts is sufficient to halt transactions ex-ante. It follows the need to design governance rules that anticipate and deal with such risks within the organisational boundaries (Sabatini et al. 2013).<sup>7</sup>

The interconnectedness between implicit contracts that are tacit, non-formalized agreements between the workers and their employers, and trust relations is deep. Indeed, the existence of trust can be both an input and an output in organisational processes. That is, the existence of trust relations ex-ante favours the accomplishment of organisational processes

through the implementation of implicit contracts while, at the same time, organisational processes in a participatory context can help to strengthen and create new trust relations, for example through reciprocating behaviours of an individual or collective kind.

The internalization of the relevant contractual effects often represents the main channel through which social value is produced, thanks to the common cognitive frame created by organisational processes and to emergence of trust amongst actors. Such processes can also favour the endogenous accumulation of social capital in a way that is not achievable by market exchanges (Sabatini et al., 2013). Co-operative firms in general and social co-operatives specifically, appear to be particularly suited to develop these organisational features, as their governance is based on members' participation (Birchall 2010).

### **The Production and Distribution of a Social Surplus**

The ability to point out what the relevant publics are and involve them as different groups of patrons, bringing in multiple objectives and values, can result in the production of a social surplus (both monetary and non-monetary) for the actors involved. Such an outcome cannot be taken for granted and requires coordination mechanisms (centred around communication, deliberation and control) that can support the articulation and evaluation of various perspectives and interests. We have mentioned that the outcomes of inclusive, deliberative processes can lead to specific welfare benefits, for example: improved quality of life, related to different aspects of the work environment; strengthening of social relations in the community; and improved quality of services (Deci and Ryan 2000; Erdal 2011).

One further implication is that, as a result of inclusive preferences within the organisation and towards the community, prices can also be lower and under specific circumstances services can be offered without fees for the beneficiaries (Borzaga et al. 2010). Given the social objective of the organization, costs can be reduced and benefits increased for some patrons as a result of good communication, trust and social capital. Lower prices can be attained also because the non-profit and social orientation of multi-stakeholder co-operatives helps gather non-market resources, such as partial or complete work donations (partially non paid or volunteer work), and other typologies of donations. Donations correspond to cost and price reductions, and to increased supply of services, hence to increased social surplus. Furthermore, the constraints imposed on profit distribution support the accumulation of funds that can then be used for social, instead of private, purposes (Borzaga et al., 2010). On the

other hand, not all benefits reach every group in the same way, since each effect is expected to benefit mainly the patrons that actively participate in the venture. For example, improved working conditions are conditional to the inclusion and active participation of employees in deliberative processes regarding organisational issues and objectives (Erdal 2011).

In general, multi-stakeholder organisations show the potential to produce a social surplus that goes beyond the simple sum of the parts, attributable to individual groups of patrons. Collective action, coordination, the evolving network of relations, and the emergence of publics can help improve social welfare beyond the objectives of individuals or specific groups. For example, by employing disadvantaged workers, social co-operatives aimed at work integration have been able to reduce social costs, to decrease unemployment, and contribute to production. This may be possible only through the involvement of different groups of patrons, i.e. volunteers, social activists, disadvantaged workers and their families, and meso-level associations (e.g. business associations and associations of the families of disadvantaged workers). These groups have been involved following a process of social interaction that has uncovered their needs, as well as the ways in which the organisation could contribute to their satisfaction. At a more fundamental level, such welfare outcomes require, as a precondition, overcoming profit as the main objective, which pairs the emergence of inclusive governance structures pursuing articulated social needs and objectives.

## **Networks**

The idea of multi-stakeholder organisation can be broadened by understanding the organisation as a network of co-interested and co-motivated actors (Sacchetti and Tortia 2008). Indeed, the evolution of the organisation is favoured by the social ties of actors that have an active role in it (Granovetter 1983). At the same time, linkages evolve together with the organisation. The idea is that interconnections, like the body of knowledge and experience that they carry, are constantly incomplete. Being a privileged terrain for inclusive deliberative processes, multi-stakeholdership offers a favourable environment for the discovery of new interested publics and for constructing new relations. These patterns can take place inside the organization, but also with actors that lie outside the organizational boundaries (Sacchetti and Tortia, 2012). In cooperative firms, this development pattern finds

its preconditions in the inclusive nature of governance and its reliance on trust relations and social capital.

Openness to emerging interests implies also their harmonization. This process requires that actors are driven by social preferences towards inclusion, resulting in patterns of interaction based on the search of publics and their involvement (Sacchetti and Sugden 2011; Sacchetti 2012a), but also on reciprocating behaviours and social goals (Sacconi 2011; Ben-Ner and Putterman 1999). Here mutuality is understood as a typology of social relations based on communicative rationality, trust and reciprocity rather than direction (Sacchetti and Sugden 2003; Zamagni 2012). Mutuality is also expected to reinforce these processes and generate inclusion. In this sense, the values underpinning the internal governance of social co-operatives appear highly coherent with networks based on mutual relations also outside the boundaries of the organisation (Sacchetti and Tortia 2012b).

## **THE CEFF SYSTEM IN FAENZA, CENTRAL ITALY**

The CEFF system (Educational Co-operative for the Faenza Families) exemplifies many of the governance issues that we have discussed. The CEFF system is now constituted by one Type A and one Type B co-operative, but when founded, in the seventies, the original co-operative was one, with the main aim of offering educational and recreational services for local families in Faenza (Emilia-Romagna, Italy). Specifically, CEFF organised family holidays on the nearby Adriatic coast using a number of council “vacation houses.” Later, after these houses were closed, in 1977 CEFF was transformed and renamed CEFF Francesco Bandini after the name of its founder, who was at that time a volunteer in the movement Catholic Action, and later was elected as a Council member with the Christian Democrats. The new CEFF Bandini was intended to support families in a different way, i.e. by supplementing the Council’s employability services for disabled persons. CEFF became a “social-solidarity co-operative” (Borzaga and Ianes, 2006). The long process through which the organisational structure developed was completed in 1998 with the creation of CEFF Servizi, which represented the incorporation of the protected workshops already existing since the 1980s at CEFF Bandini. CEFF Servizi was created as spin-off of CEFF Bandini and constituted as a Type B work-integration social co-operative. CEFF Servizi employs some tens of disadvantaged workers, mostly disabled, but also a significant number of ex-drug addicts.

Nowadays, the two organisations represent a highly integrated system, though they also acquired over time a degree of independence. CEFF Bandini delivers social services beyond the assistance that is required by disadvantaged workers at CEFF Servizi, while CEFF Servizi developed into a manufacturer producing intermediate goods for local client firms. In 2008 the two CEFF co-operatives employed 122 ordinary worker members, 32 voluntary workers, 24 standard employees (non-members), 40 workers with employability difficulties (differentiated into active employees, and ex-employees reintegrated in the labour market). In total, about 250 workers are involved in the activities of the system. In 2004 the turnover of CEFF Bandini was €1,071 million Euros, corresponding to a total net value added of €587,000. CEFF Servizi had in the same year a turnover of €966,000, which corresponded to a net value added of €497,000.

Over the years, CEFF has responded organically to the needs of its multiple stakeholders by dividing into two democratically governed subsystems. Crucially, by distributing substantial control powers to stakeholders, CEFF has prepared the social mission for other aims. Started by a group of volunteers, over time it came to include in its governance a variegated set of different patrons (employees, the parent association of the disabled workers, non-profit organisations that assist disadvantaged workers and families also outside of the working environment, the local business association, and the job centre). The ultimate change in CEFF's rules, near the time the interviews were carried out in 2006, concerned the inclusion of workers as patrons of the organisation. This required the extension of membership rights to both ordinary employees and disadvantaged workers. This modification of the governance came late, almost 30 years after the starting experiences, because CEFF Bandini was born as an organisation controlled by volunteer workers, by associations dealing with the social reintegration of disadvantaged people, and by their parents. However, eventually the need was felt to take further steps in the direction of considering workers as active and involved stakeholders. This choice can be interpreted as being supported by efficiency reasons as worker involvement has been shown to be conducive to better service quality and firm performance (Lawler, 1986; Arthur, 1994; Appelbaum et al., 2000; Guest, 2011; Wood & Wall, 2007, Sacchetti and Tortia, 2012a).

The choice of governance as well as the pronounced social orientation was supported by the pre-existing network of strong social relations in the territory of Faenza, both within and outside public sector institutions. This evidence clearly supports classical theories explaining the relation between social capital and socio-economic development (Putnam et al. 1993). We

can add, moreover, that CEFF seems to have contributed, over time, to strengthening social cohesion in the municipality, reinforcing a process of cumulative causation in which democratically governed social enterprises constitute not only users, but also producers of local social capital (Borzaga and Tortia 2009). A snapshot of this process of development does indeed identify substantial linkages between actors of the network and the internal governance of the CEFF co-operatives. CEFF Bandini developed as an open social system in which the solutions to the stimuli coming from the external social environment have been accommodated over the years. Our field work did not evidence the dominance of the objectives of specific groups of patrons over others and few, if any frictions amongst different constituencies were recorded over the years. The social mission was constantly assessed and updated (the move from recreational activities to social services, then adding work integration) and taken as the yardstick against which to evaluate decisions (such as the inclusion of a variety of publics over the years). These results have been supported by the:

1. Values laid down by the founders of CEFF;
2. Working rules of the organisations: e.g. in terms of regulating turnover in presidential and managerial positions; in the formal and informal processes of consultation and deliberation with other members; in the transparency and formalization of procedures put in place to promote personal development and provide a career path to individual users;
3. Emergence and choice of managers who understand and share the social values of the organisation;
4. The wise and attentive development of multi-stakeholder governance;
5. Contribution and control exerted by volunteers, who also happen to have a public sector background;
6. Centrality of local social capital.</nl>

In particular, the different forms of participation that came to characterize the CEFF system have been gradually nested over the initial core created by volunteers and social activists. Connections with different associations and with the social service department in the municipality were sought for and developed over time. Also, discussions about the possibility and opportunity to allow all workers, and especially the disadvantaged ones into the

membership have been going on for several years and, as a result, all workers who have open-hand labour contracts and wish to become members can now do so. Similarly, a prolonged process leads to the introduction of a new quality system for recruitment. The crucial feature of this quality system was eventually recognized in the screening of applicants based on the degree of intrinsic and social motivations, more than on educational attainments and previous work experience. In the Italian environment CEFF has been able to innovate and to shift from the standard focus that is based on productivity to a different focus based on pro-social values and motivations. This solution is clearly in line with other results concerning the recruitment of workers in non-profit organisations (Handy and Katz 1998).

The inclusion of new publics and the design of tailored forms of participation, both in the governance of the organisations, and in managerial models, did not appear to have endangered, but instead to have empowered the operational abilities of the organisation. New organisational processes based on involvement helped to clarify and pursue the social mission as they contributed to build a relevant patrimony of non-codified knowledge and trust. Many of the processes within the organisational boundaries would have proven to be unmanageable on a contractual basis. For example, the services and advice offered by the associations actively involved in the governance could not have been exchanged through arm's-length relations on the market.

As for the dynamic features of the development of the CEFF system, the evidence shows that decision makers were able to strike an effective balance between the need to innovate and foster change in the way the organisation was governed, and the risks posed by such change in the presence of delicate (though not necessarily unstable) organisational equilibria. This balance was just struck by adding time and effort to the search for adequate solutions. As it appears, additional governance costs resulted in a more than proportional growth in social benefits.

Also, the features of the involvement processes at CEFF make clear that a high degree of participation necessitates, as a precondition, a high degree of managerial independence in decision making. This independence was granted to hired professionals who have been in charge of setting up the most crucial regulatory codes, and of implementing the most delicate decisions. One reason for granting a high degree of independence to decision makers appears connected with the complexity of organisational problems. A second reason is to be found in the heterogeneity of the interests and motivations characterizing different constituencies. For example, the primary objective of business associations lies in trying to secure an adequate

level of productivity and work efficacy by disadvantaged workers. On the other hand, the charitable organisations sheltering many disadvantaged workers demand their reintegration in the social context. Managerial independence and discretion has the function of maintaining equilibrium between competing ends. This is coherent with a perspective in which the managerial function is not one of pursuing exclusively or predominantly the maximization of economic returns, but much more one of designing and guaranteeing the accomplishment of appropriate organisational equilibria (Blair and Stout 1999). The message supported by the CEFF experience is that the managerial function in socially oriented organisations is strictly connected with the ability to seek and guarantee active participation and, at the same time, with the capacity to accomplish effective decisions.

Our fieldwork also supports the view that economic aggregates such as costs, turnover, and net residuals work as parameters for assessing the economic sustainability of the organisation. They are not the objectives of the organisation (Borzaga and Tortia 2010). Rather, they are instrumental to the accomplishment of desired objectives. Indeed throughout the history of CEFF, their relevance, though not concealable, appeared quite limited when compared with the matters arising from the complex system of interconnections between the organisation and the surrounding environment which has shaped the CEFF system.

### **Latest Developments: The CEFF System in the Midst of the Economic Crisis**

Starting from 2007 the economic crisis hit the whole Italian economy, whose GDP shrank by 5% in 2009 and shrank again by 2.1% in 2012. The unemployment rate grew to 10.7% in 2012, peaking at 12.2% in August 2013. Youth unemployment reached the astonishing figure of 40.1% in July 2013, while the NEET (the young Not in Education, Employment or Training) reached 23% in the same period (IMF and ISTAT data).<sup>8</sup> The local economy in Faenza has not been exception and all actors, both private and public, have been forced to look for ways of escaping the worst consequences of the crisis. Throughout these difficult years the CEFF system has shown admirable stability and resilience, even if difficulties are being encountered and counteracting maneuvers have been activated. Overall, the system kept on relying on both public procurement contracts, and on sales to the private sector. About half of the turnover has been stably obtained from public procurement for the delivery of socio-assistance and health services (about 25%) and from other deliveries of goods and



services to the public sector (about 25%). The remaining half of the turnover is obtained (as before the crisis) from sales of goods and services to private actors.

The two components (public and private) show, however, different dynamics. Sales on the private markets witnessed growing instability and forced the CEFF system to look for new and more promising alternatives to the traditional delivery channels. On the other hand, public procurement bids and other contracts with the public sector showed a slow but inexorable decline. This is strictly connected with the severe crisis of Italian public finance. Quite clearly, social co-operatives are being used as a way to externalize and reduce public expenditure, imposing on them shrinking margins and cuts in labour costs. Overall, while the instability of the market is causing concern, the private channel appears to be most promising direction for the development of the CEFF system.

With this prospect, new sectors of activity have been envisaged and are being developed, mainly: the production of organic goods in the agri-food processing sector, the development of fair trade channels, and the production of environmental products and waste management (for example the installation of photovoltaic panels). Moreover, to face the crisis on the private market the CEFF system has endeavoured to strengthen network ties in the search for more effective solutions to economic and financial problems. In particular CEFF has fostered networking aimed at implementing partnerships with the public sector for the reintegration of disadvantaged people, and community level networks aimed at local development initiatives.

Looking more closely at the evolution of accounting figures, occupational levels at CEFF have been stable throughout the crisis, even in the presence of slightly shrinking revenues and strongly shrinking positive residuals (profits). The granting of employment stability to the whole workforce has been an explicit choice, which was pursued even to the detriment of profitability and, potentially, new investment plans. This evidence confirms the general tendency of co-operative firms to grant “employment insurance” to their workforce more than profit making enterprises (Miyazaki and Neary 1983). In negative economic contingencies this preference is pursued in conjunction with a preference for “income insurance” to the detriment of profitability (Navarra 2010; Albanese et al. 2012). At the same time, investments levels are stalled. Projects have been programmed, but are kept on hold due to the contextual uncertainty, but also as a reflection of the constraints that social organisations encounter with respect to financial mechanisms. While these organisations appear stable and less risky than other entrepreneurial forms, their ability to gather finance on the market is often more

constrained than in the case of commercial companies since financial intermediaries tend to see in social businesses a low degree of financial reliability.

## **DISCUSSION AND CONCLUSIONS**

The CEFF case corroborated and clarified many of the organisational issues that were taken up and discussed in the first part of the chapter. The pro-social nature of the organisation and multi-stakeholder governance effectively dealt with the emergence of multiple interests and their reconciliation into the mission of the organisation, which was instituted and transformed over time as social objectives and principal aims developed. The advantages of multi-stakeholder governance, as highlighted above, appear to be accomplished since, in the first stance, CEFF was able to overcome severe contractual failures (in terms of asymmetric information and diverging interests). This has happened, for example, through the involvement of disadvantaged workers on the one hand, and of employers' associations on the other.

Yet, multi-stakeholdership has proven to be able to do more than just overcome contractual failures. Participation and other inclusive practices have created and strengthened trust, which has greatly reduced potential and actual conflict. Participation has also favoured the creation of novel knowledge, specific to the effective delivery of social services. Crucial social effects connected with the exclusion of disadvantaged workers have been internalized and re-addressed, thus reducing social costs. By lowering the costs of exclusion and heightening solidarity in favour of the weakest, CEFF succeeded in increasing the welfare of many families in Faenza and of the community as a whole. The production of social value by this kind of organisation is so pronounced as to be interpretable in terms of private production of local public goods. Also, inclusion has not compromised the effective and efficient delivery of services and production of goods. The CEFF system achieved remarkable standing in production efficiency, and in product and service quality, as exemplified by the subcontracting arrangements with a number of client firms in Faenza. Amongst social co-operatives, CEFF has undoubtedly reached a level of excellence in terms of its ability to rescue difficult social situations through the accumulation of productive skills. Finally, networking has been crucial in the development of the governance structure, both internally in terms of relations amongst directly participating stakeholders, and externally across the community and the different publics.

The long wave that led to the emergence of this multi-stakeholder social co-operative appears as a process led by forerunners in social development. Some of its features and results can prove to be useful to all new and emerging models of socially oriented businesses, but also to more traditional organisations, as an example of inclusive and sustainable strategies. The aims and process established at CEFF have not, so far, been halted by the economic crisis that hit the Italian economy over the last few years. In this respect, the CEFF system has shown remarkable stability and resilience in terms of activity levels and employment, though the shrinking support by the public sector and the instability of the market has required innovative solutions, such as entering new sectors and strengthening network ties.

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<sup>1</sup> The imposition of the non-profit distribution constraint can be either partial or total. It is, as a norm, total in non-profit organisations in all national legislations. In some countries, like Italy and Spain, co-operative firms are required to build indivisible reserves of capital out of retained (non-distributed) profits. All Italian co-operatives are bound to reinvest at least 30% of their positive net residuals into indivisible reserves to be used

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exclusively for the development of their activities. Also, special banking legislation requires Italian co-operative credit banks (BCC) to reinvest in the same way at least 70% of their positive residuals. This high ratio is intended to guarantee the patrimonial strength of BCCs, and to favour the communitarian role of BCCs as required by Italian banking legislation and by the ICA 7<sup>th</sup> principle.

<sup>2</sup> Initial examples of demand side co-operatives (such as consumer coops) go back to the Rochdale pioneers in the middle of the 19th century's. Supply side co-operatives spread initially as worker or peasant co-operatives in France and Italy at the end of the 19th century.

<sup>3</sup> Theories on the emergence of entrepreneurial non-profit organisations refer to the existence of State failures in the supply of public goods (Weisbrod, 1977, 1988), and to contract failures in the presence of pronounced asymmetric information between the supplying firm and uninformed customers (Hansmann, 1996). Socially oriented co-operatives appeared during the last decades of the 19th century, as a response to the welfare state crisis experienced in some European areas. In countries like Italy, the more and more stringent constraints undergone by public finance in the supply of welfare and social services resulted in the creation of private, non-profit entrepreneurial organisations geared to produce such services. Social activism, which led these initial experiments, had also the function of instilling entrepreneurial spirit into the organized delivery of services.

<sup>4</sup> In the Italian legislation (law 381/1991) there are two types of social co-operative. Type A delivers social services, mainly in child and elderly care, in health care, and in educational and recreational activities. Type B are instead production organisations directed to the reintegration of disadvantaged people in the labor market, where disadvantaged people must count for at least 30% of the total workforce (typically disabled persons, ex-drug addicts, ex-offenders, the mentally ill, and long term unemployed). Most Type B operate as industrial companies producing intermediate or final goods and services which can also have a social relevance, for example environmentally friendly, green products and waste management. Substantial tax advantages are granted to all social cooperatives, but especially to the B Type in order for the State to recognize and support their social function and to allow their economic and financial viability.

<sup>5</sup> A case in point in this respect is represented by new forms of socially oriented businesses such as the Community Interest Company (CIC) in the UK and by Social Enterprises (SE) in Italy, introduced by legislation respectively in 2005 and 2006. They can take the form of co-operatives, but also of entrepreneurial nonprofits and of investor-owned businesses. In the latter case, they are controlled by investors, but undergo stringent constraints on the distribution of profits, which are intended to exclusively support the development of the organisation and to allow financial sustainability. Social enterprises need to include all the relevant stakeholders in the governance of the organisation. CICs and SEs clearly represent hybrid organisational forms characterised by non-traditional control rights, firm objectives and governance solutions.

<sup>6</sup> Following the new-institutionalist approach by Hansmann (1996), we can state that multi-stakeholder governance can be more efficient than mono-stakeholder governance when the costs undergone in writing contracts with the plurality of stakeholders are higher than the costs of organising production within a coordinated governance structure (cfr. also Borzaga, Depedri, and Tortia, 2011; Giudi, 2011)

<sup>7</sup> We could still argue, however, that trust can also reduce the transaction costs connected with market exchanges. Still, implicit contracts are used to back relations within the organisational boundaries more than in market exchanges, and therefore trust is expected to play a greater role around relationships developed out of market transactions.



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<sup>8</sup> We are grateful to Massimo Caroli for further interviews conducted during summer and autumn 2012 concerning the development of the CEFF system during the 2007 to 2012 period.